



CALIFORNIA BOARD OF ACCOUNTANCY

# PEER REVIEW OVERSIGHT COMMITTEE 2021 Annual Report



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## I. Message from the Chair

I am pleased to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2021 Annual Report. I would like to thank the CBA for its continued trust in my leadership of the PROC. I would also like to extend my sincerest appreciation to Sharon Selleck, CPA, who served as Vice-Chair of the PROC this last year.

PROC members performed oversight activities by attending California Society of Certified Public Accountants (CalCPA) Report Acceptance Body meetings, performing oversight of out-of-state administering entities to ensure that they are held to the same regulatory standards as California, gathering and reviewing peer review and peer reviewer-related statistics from the American Institute of Certified Public Accountants (AICPA), performing the Administrative Site Visit of the CalCPA, and reviewing the following documents:

- The American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2019 Annual Report on Oversight, Issued February 18, 2021.
- Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued May 3, 2021.
- American Institute of Certified Public Accountants Oversight Task Force Report and Letter of Observations regarding its administrative oversight of the National Peer Review Committee, issued September 20, 2021, and the Response Letter from the National Peer Review Committee, issued October 14, 2021.
- Report on the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force's Oversight Visit Report to the California Society of Certified Public Accountants, issued November 19, 2020.
- AICPA Peer Review Administering Entity Oversight Visit Results for the Connecticut, Florida, Minnesota, Nevada, New Jersey, Virginia, and Washington Society of CPAs.

It has been an honor to serve in this role and I look forward to the continued success of the PROC.

Sincerely,

Jeff De Lyser, CPA

## II. The California Peer Review Program

All California-licensed accounting firms, including sole-proprietors, providing accounting and auditing services are required to undergo a peer review once every three years as a condition of license renewal.

The goal of peer review is to promote quality in the accounting and auditing services provided by accounting firms, and to ensure that licensees are adhering to professional standards. Consumer protection is increased in two crucial areas through peer review:

- The peer review requirement helps to monitor and educate accounting firms to promote quality in the accounting and auditing services they provide. This goal serves the public interest and protects the consumer through an increase in the quality of the product provided to clients.
- The CBA requires accounting firms receiving substandard peer review ratings to notify the CBA. The CBA reviews the information to assess whether to pursue enforcement actions against accounting firms receiving substandard ratings. This consumer protection mechanism provides assurance that only qualified licensees are practicing public accounting and providing services to consumers in California.

## III. Peer Review Oversight Committee Responsibilities

The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review. The PROC derives its authority from Business and Professions Code section 5076.1.

The roles and responsibilities of the PROC, as defined by the CBA, are:

- Hold meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer reviews.
- Ensure that the CBA-Recognized Peer Review Program Provider administers peer reviews in accordance with the standards set forth in California Code of Regulations section 48:
  - Conduct an annual administrative site visit.
  - Attend peer review board meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Attend peer review committee meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Attend meetings conducted for the purpose of accepting peer review reports, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Conduct reviews of peer review reports on a sample basis.
  - Attend, on a regular basis, peer review training courses.

- Evaluate any *Application to Become a Board-Recognized Peer Review Provider* and recommend approval or denial to the CBA.
- Refer to the CBA any Provider that fails to respond to any request.
- Collect and analyze statistical monitoring and reporting data from each CBA-recognized Peer Review Program Provider on an annual basis.
- Prepare an Annual Report to the CBA regarding the results of its oversight.
- Evaluate the peer reviewer population.

#### 2021 Peer Review Oversight Committee Meeting Dates

The PROC holds meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.

The PROC met three times in 2021:

- February 12, 2021
- April 30, 2021
- December 10, 2021

The meetings were held virtually via WebEx.

#### IV. Peer Review Oversight Committee Members

The CBA appointed four new members to the PROC in 2021. The PROC has one vacancy. Members may serve up to four, two-year terms.

<b>Name</b>	<b>Term Appointment</b>	<b>Term Expiration</b>
Jeff De Lyser, CPA	August 17, 2021	September 30, 2023
Sharon Selleck, CPA	March 23, 2017	March 31, 2023
Fiona Tam, CPA	November 16, 2017	November 30, 2023
Laura L. Ross, CPA	July 23, 2021	July 31, 2023
Fausto Hinojosa, CPA	September 23, 2021	September 30, 2023
Nick Petersen, CPA	September 23, 2021	September 30, 2023

Jeff De Lyser served as the PROC Chair and Sharon Selleck served as the Vice-Chair.

At the November 2021 CBA meeting, Jeff De Lyser was re-appointed as Chair and Laura Ross was appointed as the new Vice-Chair for 2022.

#### V. American Institute of Certified Public Accountants

The AICPA Peer Review Program is currently the sole CBA-recognized Peer Review Program Provider. The AICPA oversees its program and the peer reviews are administered by an entity, typically a state CPA society, approved by the AICPA to perform that role. Through regulation, the CBA established that the AICPA Peer Review

Program meets the standards outlined in California Code of Regulations section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

The AICPA administers and monitors its peer review program through specifically assigned AICPA institutions, programs, and systems. Those monitoring tools are as follows:

- AICPA Peer Review Board
- AICPA Oversight Task Force
- AICPA Peer Review Program Administering Entities
- AICPA Peer Review Integrated Management Application

## VI. California Society of Certified Public Accountants

CalCPA is one of 55 state societies and is one of 25 administrative entities approved in 2021 by the AICPA. CalCPA administers the AICPA Peer Review Program in California, Arizona, and Alaska. As an administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's Standards for Performing and Reporting on Peer Reviews.

CalCPA upholds the integrity of its peer review administration of the AICPA peer review program through use of the AICPA Peer Review Integrated Management Application system, complying with AICPA standards, reviewing and ensuring qualifications of peer reviewers, conducting peer reviewer training, maintaining on-staff CPAs and technical reviewers, and facilitating several Report Acceptance Body (RAB) meetings each year. The CalCPA Peer Review Committee addresses various administrative issues at its bi-annual meetings.

CalCPA technical reviewers review the technical quality of the peer review reports and findings on reviewed accounting firms and review the performance of peer reviewers. During the CalCPA RAB meetings, members discuss the peer reviews, conclude on the findings, discuss peer reviewer performance feedback, and determine whether each peer review completed is acceptable.

## VII. National Association of State Boards of Accountancy

In 2020, the National Association of State Boards of Accountancy (NASBA) changed the name of the Compliance Assurance Committee to the Peer Review Compliance Committee (PRCC). The PRCC promotes transparency in the operation of the AICPA National Peer Review Committee and effective oversight of compliance with professional standards by CPAs and their firms. The focus of the PRCC is to recommend a nationwide strategy promoting a mandatory program for compliance assurance that is acceptable to boards of accountancy.



Two positions on the AICPA National Peer Review Committee are filled by NASBA representatives. The AICPA National Peer Review Committee members representing NASBA participate in RAB meetings and report periodically to the PRCC on whether the AICPA National Peer Review Committee has operated effectively.

The National Peer Review Committee administers the AICPA peer review program for firms that meet one of the following three criteria:

- The firm is required to be registered with, and subject to permanent inspection by, the Public Company Accounting Oversight Board.
- The firm performs engagements under Public Company Accounting Oversight Board standards.
- The firm provides quality control materials, or is affiliated with a provider of quality control materials, that are used by firms that are subject to peer review.

## VIII. Peer Review Oversight Committee Oversight of the California Peer Review Program

The PROC provides oversight of all CBA-recognized peer review program providers and peer review-related activities.

The PROC performs various oversight activities to ensure comprehensive oversight of the California Peer Review Program. The PROC observes a sample of peer-review related meetings throughout the year and engages in an annual Administrative Site Visit. Oversight activities may also include reviewing relevant peer review-related publications, highlighting and inquiring about findings that may have potential impacts to the California Peer Review Program, and performing continual internal updates and reviews of oversight procedures to address the evolving peer review program.

### Peer Review Oversight Committee Oversight Activities

The PROC actively oversees and evaluates the administration of the California Peer Review Program via observations of peer review related meetings and activities. In 2021, the PROC engaged in the following peer review-related oversight activities:

- CalCPA RAB Meetings
- CalCPA Administrative Site Visit

### *CalCPA Report Acceptance Body Meetings*

PROC members virtually observed twenty-nine RAB meetings. The purpose of the observation was to determine whether the RAB meeting met expectations as to its effectiveness for its role in the peer review process.

The participating PROC members reported that all the observed RAB meetings met effectiveness expectations. Each RAB member verbally attested that they had reviewed the materials and were prepared to participate prior to the start of the meeting. RAB members were very open and transparent with each other and asked questions if something was not their area of expertise. Risk assessment training was discussed at select meetings in addition to the reports.

### *CalCPA Administrative Site Visit*

The Administrative Site Visit to CalCPA is the most comprehensive oversight activity performed by the PROC. The Administrative Site Visit allows the PROC to perform meaningful oversight of the California Peer Review Program. The visit was performed virtually. The Administrative Site Visit procedures are outlined in the four PROC-developed checklists, which are implemented in five phases annually to ensure key deadlines are met. The checklists are as follows:

- PROC Administrative Site Visit Work Plan Checklist
- PROC Administrative Site Visit Risk Map and Risk Mitigating Procedures Checklist
- PROC Administrative Site Visit Summary Report
- PROC Administrative Site Visit Summary Oversight Checklist

The PROC Administrative Site Visit is planned and executed in phases:

**Phase 1:** Plan – Assignment of the two-person Administrative Site Visit team. (Scheduled: May)

Associated Activities – PROC members Jeff De Lyser and Laura Ross were assigned to perform the 2021 PROC Administrative Site Visit. (Completed: September)

**Phase 2:** Plan – Assigned PROC members communicate with the administering entity to arrange the site visit, the oversight activities that will take place, and to request documents and information necessary to effectively complete the risk assessment. (Scheduled: May/June)

Associated Activities – Phase 2 was delayed due to the cancellation of the August PROC meeting. Jeff De Lyser and Laura Ross communicated with CalCPA to arrange the logistics of a virtual site visit. (Completed: October/November)

**Phase 3:** Plan – Place an item on the PROC agenda soliciting input from PROC members on the risks and associated testing. (Planned: August)

Associated Activities – Phase 3 was not completed in 2021 due to the cancellation of the August 2021 PROC meeting. Alternatively, Jeff De Lyser discussed potential risks with CBA staff.

**Phase 4:** Plan – The assigned PROC members conduct the Administrative Site Visit, referencing the PROC Administrative Site Visit Risk Map and Risk Mitigating Procedures Checklist and perform executable risk assessment procedures to determine whether the risk mitigating procedures set in place by the administering entity operate and function as intended. (Planned: September/October).

Associated Activities – On December 1 and 3, 2021, PROC members Jeff De Lyser and Laura Ross implemented Phase 4 of the Administrative Site Visit to CalCPA. (Completed: December)

The members performed the following oversight procedures during the Administrative Site Visit to CalCPA:

- Reviewed a sample of existing and new peer reviewers and their qualifications to determine if AICPA’s minimum standards were met.<sup>1</sup>
- Completed Phase 4 by reviewing and examining key risk variables and mitigating procedures.
- Interviewed key CalCPA staff, a Peer Review Committee member, and a technical reviewer.
- Reviewed policies and procedures used by CalCPA to govern its peer review program process.
- Read correspondence and other available documentation from other oversight activities performed at CalCPA.
- Reviewed a sample of peer reviews and associated files.
- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel.

**Phase 5:** Plan – Assigned PROC members complete the PROC Administrative Site Visit Summary Report and Oversight Checklist, and present findings to the PROC (Planned: December).

Associated Activities – On December 10, 2021, PROC Chair Jeff De Lyser reported on and discussed observations from the December 1 and 3, 2021 Administrative Site Visit to CalCPA. The completed PROC Administrative Site Visit Summary Report and Oversight Checklist were presented at the February 18, 2022 PROC meeting (Completed: February).

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<sup>1</sup> In response to the pandemic, the AICPA waived the requirement in 2020 and 2021 for administering entities to independently gather and verify reviewer qualifications.

### *Peer Review Oversight Committee Activities Conclusion*

The PROC concluded that the administration of the California Peer Review Program by CalCPA, inclusive of the RAB meetings, was performed in a manner consistent with peer review guidelines and met CBA expectations.

### *Peer Review-Related Reports and Publications Reviewed by the Peer Review Oversight Committee*

The PROC annually reviews peer review-related reports and publications by the AICPA, CalCPA, and NASBA Peer Review Compliance Committee in order to remain current with the AICPA Peer Review Program, policies, procedures, and changes that affect consumers. The PROC reviewed the following peer review-related reports and publications in 2021:

- The American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2019 Annual Report on Oversight, Issued February 18, 2021.
- Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued May 3, 2021.
- American Institute of Certified Public Accountants Oversight Task Force Report and Letter of Observations regarding its administrative oversight of the National Peer Review Committee, issued September 20, 2021, and the Response Letter from the National Peer Review Committee, issued October 14, 2021.
- Report on the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force's Oversight Visit Report to the California Society of Certified Public Accountants, issued November 19, 2020.
- AICPA Peer Review Administering Entity Oversight Visit Results for the Connecticut, Florida, Minnesota, Nevada, New Jersey, Virginia, and Washington Society of CPAs.

### *The American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2019 Annual Report on Oversight, Issued February 18, 2021*

At its April 30, 2021 meeting, the PROC was presented with the 2019 AICPA Peer Review Program, National Peer Review Committee (NPRC) Annual Report on Oversight, issued February 18, 2021. The NPRC's oversight function is managed by the AICPA Oversight Task Force (OTF). The OTF conducted an internal review of the NPRC administrative functions in September 2019 and an external review was conducted by a member of the AICPA Peer Review Board in October 2020.

The Report provides a general overview including statistical information pertaining to peer reviews accepted during calendar years 2017-2019, which covers a full three-year peer review cycle.

The internal review of the NPRC administrative functions conducted by the OTF observed the following:

- Instances were noted in which peer review documents were retained longer than allowed by the Standards for Performing and Reporting on Peer Reviews.
- An isolated instance was noted in which the performance of a peer review was significantly delayed due to a gap in the process for monitoring of reviews referred to the Peer Review Board (PRB) for a termination hearing in which the hearing was subsequently cancelled.

The NPRC responded to this finding by evaluating the observations and implementing revised policies to address the findings.

The external review of the NPRC administrative functions conducted by the member of the OTF concluded that the NPRC has complied with the administrative procedures and standards in all material respects. However, the OTF included the following observations and recommendations:

- Greater care should be exercised to ensure current confidentiality agreements are being utilized.
- Technical reviewer evaluations specific to the role as a technical reviewer should be performed.
- RAB packages should include the firm representation letter, the single audit engagement profile, and the Section 22100 – Part Q – UG checklist, as applicable.

The NPRC evaluated the recommendations and implemented a new review process of confidentiality letter templates, developed a technical reviewer evaluation form to be used in conjunction with other monitoring tools to track qualifications and is evaluating how best to use available technology to provide additional materials to the RAB. Peer review documents will continue to be made available to RAB members upon request.

*[Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued May 3, 2021](#)*

At its December 10, 2021 meeting, the PROC was presented with the Report on the American Institute of Certified Public Accountants Peer Review Program (Program) Annual Report (Report) on Oversight.

The Report provided an overview of oversight procedures performed in 2019-2020 in accordance to the AICPA Peer Review Oversight Handbook (AICPA Oversight Handbook), which includes:

- Oversight of Administering Entities (AE) – The AICPA OTF visited 12 AEs in 2019 and 15 AEs in 2020.

- RAB Observations – The RAB observation focus group reviewed 70 RAB meetings and 263 peer reviews were selected during these observations in 2020.
- Enhanced Oversight – The process was paused in 2020 due to COVID-19. As a result, the only enhanced oversights performed were those from the 2019 sample completed early in 2020. Subject matter experts performed oversight on must-select engagements that included the reviews of financial statements and working papers. This also includes the monitoring of peer reviewer performance on must-select jobs.
- Evolution Focus Group – The focus group reviewed the results of the benchmark summary forms submitted by the AEs and evaluated AE performance and whether modifications to the benchmarks were needed.
- Plan of Administration Focus Group – The focus group reviewed and approved the plans submitted annually by the AEs agreeing to administer the Program in compliance with standards and guidance.
- Reviewer Performance Focus Group – The focus group reviewed the reviewer performance monitoring report prepared by Program staff.

The Report highlighted oversight activities conducted by AEs in accordance with the AICPA Oversight Handbook, which included the following:

- Administrative Oversight of the AE – There were 27 AE oversights performed in 2019 and 2020.
- Oversight of Peer Reviews and Reviewers – In 2020, AE's conducted oversight on 146 reviews. There were 84 system and 62 engagement reviews chosen.
- Annual Verification of Reviewers' Resumes – Due to the COVID-19 pandemic, the AICPA waived this requirement. AEs were not required to perform resume verification in 2020.
- The Oversight Task Force did not identify any patterns of consistent non-compliance that required further actions.
- Peer reviewers are improving and catching more non-conforming engagements as a result of increased educational efforts, as indicated in the following table:

Year	Sample Size	Total Non-Conforming Engagement Identified	%	Non-Conforming Engagements with Only Risk Assessment Issues	Adj. %	Number of Non-Conforming Engagements Identified by Peer Reviewer	% of Non-Conforming Engagements Identified by Peer Reviewer
2014	90	40	44%	N/A	44%	7	18%
2015	190	104	55%	N/A	55%	42	40%
2016	108	38	35%	N/A	35%	18	47%
2017	87	43	49%	N/A	49%	27	63%
2018	185	108	58%	11	52%	68	63%
2019	79	46	58%	17	37%	37	80%

*American Institute of Certified Public Accountants Oversight Task Force Report and Letter of Observations regarding its administrative oversight of the National Peer Review Committee, issued September 20, 2021, and the Response Letter from the National Peer Review Committee, issued October 14, 2021*

On June 28, 2021, the AICPA OTF conducted administrative oversight activities of the AICPA NPRC peer review process including: review of its administrative procedures, technical review procedures, CPAs on staff, and oversight program.

On September 20, 2021, Kevin D. Humphries, Member, AICPA OTF issued a result letter and concluded that the NPRC administrative peer review process, technical review procedures, CPAs on staff, and the oversight program are in compliance with the administrative procedures and standards in all material respects as established by the AICPA Peer Review Board.

The letter noted that the resume verification process was suspended in 2020 due to the COVID-19 pandemic.

*Report on the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force's Oversight Visit Report to the California Society of Certified Public Accountants, issued November 19, 2020*

On October 20, 2020 and November 11-19, 2020 the AICPA PRB Oversight Task Force conducted its oversight visit and observation of the CalCPA peer review administrative process. Following the oversight visit, the AICPA PRB Oversight Task Force issued both a procedures and observations report and an Oversight Visit Report on November 19, 2020.

The procedures and observations report provided an overview of key oversight procedures performed during the AICPA PRB Oversight Task Force oversight visit to CalCPA which included:

- Administrative Procedures
- Technical Review Procedures
- CPAs on Staff
- RAB and Peer Review Committee Procedures
- Oversight Program

The November 19, 2020 Oversight Visit Report concluded that the CalCPA complied with the administrative procedures and standards in all material respects as established by the AICPA PRB. To enhance CalCPA administration of the peer review program, it was recommended that CalCPA develop or refine processes to monitor the status of reviews to ensure that system reviews are presented to the RAB within 120 days after the review documents are received.

On February 17, 2021, CalCPA issued an acknowledgement letter to the AICPA PRB Oversight Task Force in response to the oversight observations and procedures report and Oversight Visit Report. The CalCPA was pleased to receive a report with no deficiencies, and appreciated the constructive advice and suggestions.

On February 24, 2021, the AICPA PRB Oversight Task Force issued a letter noting acceptance of the procedures and observations report and Oversight Visit Report for CalCPA and its peer review administrative procedures. The letter noted that CalCPA's next administering entity site visit will be in 2022.

#### *AICPA Peer Review Administering Entity Oversight Visit Results*

The PROC monitors out-of-state administering entities that operate under the CBA-Recognized Peer Review Program Provider, the AICPA, to ensure that they are held to the same regulatory standards as in California.

Out-of-state oversight procedures include a review of the current list of AICPA approved administering entities and top 20 jurisdictions (states) with a high-volume of Out-of-State Firm Registrants under the current California mobility program and require the following:

- At each PROC meeting, select two out-of-state administering entities from the list of administering entities identified that have high-volumes of Out-of-State Firm Registrants.
- Review available prior AICPA administering entities' oversight reports.
- Complete the PROC Out-of-State Administering Entities Checklist.
- Present and discuss as necessary the following items:
  - Findings
  - Recommendations



- Develop items to include in a written inquiry to the AICPA regarding the findings and request for explanations, corrective actions, and timeframe for completion, if applicable.
- Follow-up and review future published AICPA administering entities oversight report(s) to ensure all findings have been addressed and corrected.

In 2021, the PROC reviewed the oversight reports for the following Administering Entities:

<b>Administering Entity</b>	<b>Licensing Jurisdiction</b>
The Connecticut Society of CPAs	Connecticut
The Minnesota Society of CPAs	Minnesota, North Dakota
The Nevada Society of CPAs	Nevada, Idaho, Montana, Nebraska, Utah, Wyoming
The Virginia Society of CPAs	Virginia, District of Columbia
The Washington Society of CPAs	Washington
The Florida Institute of CPAs	Florida
The New Jersey Society of CPAs	New Jersey

Each Administering Entity reviewed by the PROC received a report noting that they had complied with the administrative procedures and standards in all material respects as established by the AICPA Peer Review Board; however, some Administering Entities received recommendations for improvement.

The AICPA Oversight Report for the Connecticut Society of CPAs recommended:

- The administrative staff and the peer review committee members should continue to monitor the status of open reviews and actively work to resolve old open reviews.
- The administering entity should periodically review their website content for accuracy and completeness.
- The CPA on staff should ensure that technical reviews are presented to the RAB within 120 days after the review documents are received.
- The technical reviewers should exercise greater care in performing technical reviews to identify and resolve open items before sending the review to the RAB.
- The technical reviewers should evaluate reviewer performance on each review and recommend reviewer performance feedback when warranted.

The AICPA Oversight Reports for the Minnesota Society of CPAs and the Nevada Society of CPAs recommended:

- Technical reviewers should exercise greater care in performing technical reviews to identify issues before the report acceptance process.

The AICPA Oversight Report for the Virginia Society of CPAs recommended:

- The administrative staff and peer review committee should monitor open reviews and take appropriate action to ensure reviews are completed as appropriate.
- The administering entity should ensure that the website contains current information.
- The CPA on staff should monitor the qualifications of the RAB members to determine their eligibility to participate in RAB meetings.
- Technical reviewers and committee members should exercise greater care when evaluating peer reviews to determine compliance with peer review standards, interpretations and related guidance.

The AICPA Oversight Report for The Washington Society of CPAs recommended:

- Technical reviewers should exercise greater care in documenting previous feedback that had been issued to reviewers and considering feedback when reviewers are requested to make significant revisions to the peer review documents.
- RABs should take appropriate steps to ensure that reviewer performance feedback forms are issued in these instances and that engagement review matters are appropriately elevated.

The AICPA Oversight Reports for The Florida Institute of CPAs and The New Jersey Society of CPAs had no recommendations.

#### *Peer Review Report and Publication Review Conclusion*

The PROC concluded that the AICPA Peer Review Board's Oversight Task Force reviews of compliance with the AICPA Peer Review Board program were met and that the AICPA National Peer Review Committee procedures performed in administering the program complied with AICPA peer review standards in all material respects. Additionally, the PROC found that the states reviewed performed procedures in administering the program that complied with AICPA peer review standards in all material respects. In five of the states, the Oversight Task Force noted recommendations for improvement which did not impact their overall conclusion on compliance.

## IX. Statistical Monitoring and Reporting on California Peer Review Statistics

The PROC annually provides and reports on peer review-related statistics specific to the state of California. The source of the data is the AICPA and it includes firms that chose to opt out of the Facilitated State Board Access. The data is provided to the PROC by CalCPA. The PROC collects the following data points:

- Number of reviews completed by month, and types (system vs engagement) cumulatively for the annual reporting period.
- Types (system vs. engagement) and number of reviews receiving a pass, pass with deficiencies, or fail rating.
- Corrective action matters.
- Firms expelled from the program.

The following statistical information is not currently available:

- Types and number of reviews in progress
- Extensions requested and status
- Delinquent reviews
- Must-select engagements

The PROC asked that CBA staff provide statistical updates biannually, once prior to the PROC Administrative Site Visit to CalCPA, and a second time to consider for inclusion in the PROC Annual Report.

The following 2020 peer review-related statistical information was provided directly from the CalCPA on November 30, 2021.

#### Number of Reviews Completed by Month, and Types (System vs Engagement) Cumulatively for the Annual Reporting Period

##### **Table 1: California Peer Reviews Accepted**

The data in Table 1 provides the number of both system and engagement reviews accepted on a monthly basis starting from January 1, 2017 to December 31, 2020. It should be noted that the reduced number of accepted reviews in 2020 is most likely attributed to the automatic six-month extension for all firms with due dates ranging from January 1, 2020 to September 30, 2020 granted by the AICPA in response to the COVID-19 pandemic.

Month	2017	2018 <sup>2</sup>	2019	2020
January	64	52	125	114
February	243	173	145	99
March	162	138	123	100
April	95	132	120	83
May	49	112	72	62
June	14	82	74	67
July	23	138	94	43
August	63	114	102	37
September	78	154	124	63
October	108	97	103	31
November	137	117	58	71
December	86	111	75	90
<b>Total</b>	<b>1,122</b>	<b>1,420</b>	<b>1,215</b>	<b>860</b>

The average number of reviews completed in California during 2017-2020 was 1,154.

#### Types (System vs. Engagement) and Number of Reviews Completed Cumulatively for the Annual Reporting Period

**Table 2: California Peer Reviews Performed During the Calendar Years 2017-2020 by Type Cumulatively for the Annual Reporting Period**

Type of Review	2017	2018	2019	2020
System	349	554	403	316
Engagement	773	866	812	544
<b>Total</b>	<b>1,122</b>	<b>1,420</b>	<b>1,215</b>	<b>860</b>

#### Types (System vs. Engagement) and Number of Reviews Receiving Pass, Pass with Deficiencies, or Fail Rating

**Table 3: California Peer Reviews Performed by Type of Peer Review and Rating**

##### System Reviews

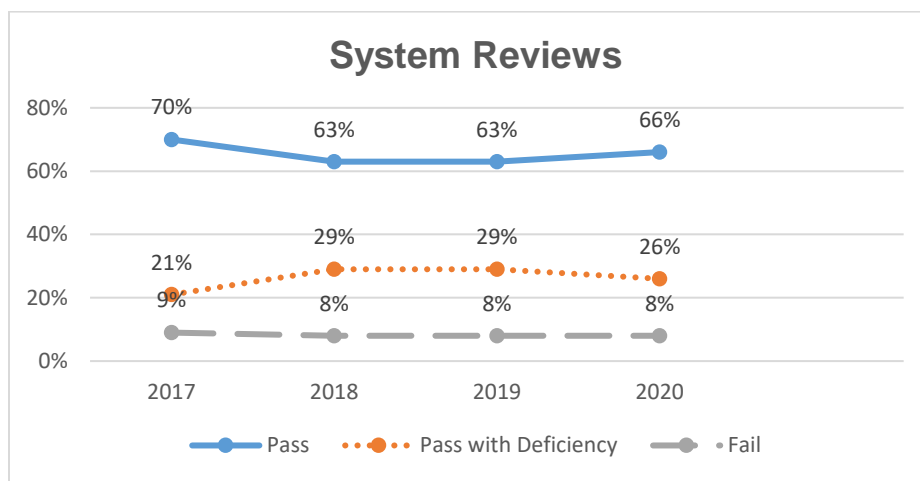
Rating	2017 QTY	2017 %	2018 QTY	2018 %	2019 QTY	2019 %	2020 QTY	2020 %
Pass	243	70%	302	63%	253	63%	208	66%
Pass with Deficiency	75	21%	140	29%	119	29%	83	26%
Fail	31	9%	39	8%	31	8%	25	8%
<b>Total System</b>	<b>349</b>	<b>100%</b>	<b>481</b>	<b>100%</b>	<b>403</b>	<b>100%</b>	<b>316</b>	<b>100%</b>

<sup>2</sup> The total number of reviews accepted in 2018 slightly varies from the total reflected in Tables 3-4, as the numbers provided by CalCPA were run on different dates.

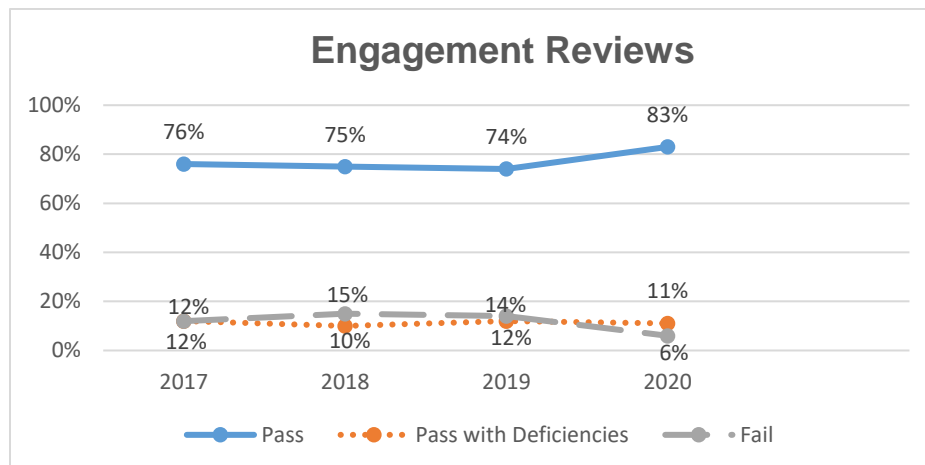
## Engagement Reviews

Rating	2017 QTY	2017 %	2018 QTY	2018 %	2019 QTY	2019 %	2020 QTY	2020 %
Pass	586	76%	637	75%	604	74%	452	83%
Pass with Deficiency	92	12%	87	10%	96	12%	60	11%
Fail	95	12%	124	15%	112	14%	32	6%
<b>Total Engagement</b>	<b>773</b>	<b>100%</b>	<b>848</b>	<b>100%</b>	<b>812</b>	<b>100%</b>	<b>544</b>	<b>100%</b>

**Graph 1 – System Reviews**



**Graph 2 – Engagement Reviews**



**Table 4: California Peer Reviews Performed by Types of Peer Review and Rating**

The data in Table 4 is a combination of both system and engagement reviews and indicates relative changes in percentages for the total number of California reviews performed.

<b>System and Engagement</b>	<b>2017 QTY</b>	<b>2017 %</b>	<b>2018 QTY</b>	<b>2018 %</b>	<b>2019 QTY</b>	<b>2019 %</b>	<b>2020 QTY</b>	<b>2020 %</b>
Pass	829	74%	939	71%	857	70%	660	77%
Pass with Deficiency	167	15%	227	17%	215	18%	143	17%
Fail	126	11%	163	12%	143	12%	57	6%
<b>Summary Total</b>	<b>1,122</b>	<b>100%</b>	<b>1,329</b>	<b>100%</b>	<b>1,215</b>	<b>100%</b>	<b>860</b>	<b>100%</b>

[Corrective Action Matters \(Various Types: Overdue Peer Review Reports, Disagreements Pending Resolution, etc.\)](#)

**Table 5: Summary of Required Follow-up Actions Under AICPA and CalCPA Peer Review Program**

The CalCPA Peer Review Committee is authorized by the AICPA Peer Review Program Standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm’s peer review. During the report acceptance process, the CalCPA Peer Review Committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies.

The CalCPA Peer Review Committee also considers the comments noted by the reviewer and the firm’s response thereto. If the firm’s response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide to not recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions.

Type of Follow-up Action	2017	2018	2019	2020
Submit proof of continuing professional education taken	209	339	527	283
Submit copy of monitoring report	6	16	17	11
Submit copy of inspection report to committee	0	2	3	2
Submit evidence of proper firm licensure	0	7	3	3
Submit to Team Captain revisit – General	12	12	8	2
Submit to Team Captain review of subsequent engagements with work papers	66	132	145	90
No longer perform any audit engagements	30	2	1	0
Agree to pre-issuance review by Team Captain or outside party	0	9	22	5
Team Captain or outside party review correction of non-conforming engagements	0	5	3	0
Team Captain or outside party to review quality control document	0	4	1	1
Team Captain or outside party to review firms' remedial actions in the letter of response	N/A <sup>3</sup>	N/A	N/A	2
Submit inspection report to Team Captain or outside party for review	N/A	N/A	N/A	3
Request to have accelerated review	N/A	N/A	N/A	1
Other	0	3	5	7
<b>Total</b>	<b>323</b>	<b>531</b>	<b>735</b>	<b>410</b>

### Firms Expelled (Terminated) from the Program

**Table 6: California Terminated Firms**

Accounting firms that have commenced their peer review process may be terminated by the AICPA for the following reasons:

- Failure to cooperate
- Consecutive failed reports
- Failure to submit a signed acknowledgement letter
- Failure to complete a corrective action
- Non-cooperation related to omission or misrepresentation of information
- Failure to complete its peer review after it has commenced
- Failure to complete an implementation plan
- Failure to correct deficiencies or significant deficiencies after consecutive correction actions

Action	2017	2018	2019	2020	Total
Terminated	3	11	6	0	20

<sup>3</sup> N/A indicates the follow-up action was not used by CalCPA in the given year.

Firms terminated for specific reasons can appeal for reenrollment in the California Peer Review Program and be evaluated by either the administering entity or a hearing panel of the AICPA Peer Review Board. In response to the pandemic, the AICPA initiated a moratorium on terminating firms in 2020.

The CBA Enforcement Division proactively initiates investigations of California-licensed accounting firms identified to have been terminated from the AICPA peer review program. Results from each investigation vary on a case-by-case basis.

## X. Statistical Monitoring and Reporting on California Peer Reviewer Statistics

The AICPA provides peer review-related statistics twice annually. There are approximately 22,800 firms currently enrolled in the peer review program in the United States and its territories. In recent years, the AICPA has noted a decrease in the number of firms enrolled in the peer review program. This is attributed to firm mergers and firms no longer performing the accounting and auditing engagements that would subject them to a peer review. Approximately 1,200 firms enrolled in the peer review program indicate that they do not currently perform any engagements subject to peer review. Approximately 8,000 peer reviews are performed each year by a pool of approximately 1,900 California peer reviewers.

The data provided in tables 7-10 was provided by the AICPA and is California-specific. Tables 11 represents national data.

On January 15, 2021, there were 3,511 California firms enrolled in the AICPA Peer Review Program and on September 13, 2021, there were 3,306 California firms enrolled, reflecting a decrease of 205 firms.



**Table 7: Number of California Firm Peer Reviews Accepted**

<b>Administering Entity</b>	<b>1/1/2018 - 12/31/2020</b>	<b>1/1/2021 - 6/30/2021</b>
California	3,435	553
Colorado	2	0
Georgia	1	1
North Carolina	1	0
National Peer Review Committee	66	7
Oregon	5	1
Pennsylvania	1	0
Tennessee	2	0
Texas	1	0
<b>Total<sup>4</sup></b>	<b>3,514</b>	<b>562</b>

**Table 8: Number of California Firms that Had System Peer Reviews Accepted**

<b>Administering Entity</b>	<b>1/1/2018 - 12/31/2020</b>	<b>1/1/2021 - 6/30/2021</b>
California	1,240	195
Colorado	2	0
Georgia	1	0
National Peer Review Committee	64	7
Oregon	2	1
Tennessee	1	0
<b>Total</b>	<b>1,310</b>	<b>203</b>

<sup>4</sup> Data in Tables 1-6 and Tables 7-11 differ due to being generated on different dates. The AICPA provided data was generated after the CalCPA provided data. Given the tables only include active firms, the decline in firms is most likely attributed to firms becoming inactive during that time period.

**Table 9: Number of California Firms that Had System Peer Reviews Accepted in a Must-Select Category**

<b>Must-Select Category</b>	<b>1/1/2018 - 12/31/2020</b>	<b>1/1/2021 - 6/30/2021</b>
Employee Retirement Income Security Act (380, 390, 400, 403)	510	79
Federal Deposit Insurance Corporation Improvement Act (7, 8)	1	0
Government Auditing Standards (5,13, 325)	540	69
Broker Dealers (440, 450)	20	4
Service Organization Controls 1 and 2 (312, 313)	27	5
<b>Total</b>	<b>1,098</b>	<b>157</b>

**Table 10: Number of California Firms That Had Engagement Peer Reviews Accepted**

<b>Administering Entity</b>	<b>1/1/2018 - 12/31/2020</b>	<b>1/1/2021 - 6/30/2021</b>
California	2,195	358
North Carolina	1	0
National Peer Review Committee	2	0
Oregon	3	0
Pennsylvania	1	0
Tennessee	1	0
Texas	1	0
Georgia	0	1
<b>Total</b>	<b>2,204</b>	<b>359</b>

Between January 1, 2021 and June 30, 2021, there were 49 peer reviewers with a California address who performed peer reviews of California firms. There were 41 reviewers who created a new resume. Six of them had a California address.

**Table 11: Total Peer Reviews Performed Nationally**

	<b>2007-2009</b>	<b>2012-2014</b>	<b>2017-2019</b>
Reviews Performed	28,250	26,436	24,337

The availability of robust and representative data regarding the sufficiency of the peer reviewer population was not available at the time of this report. The PROC recommends that they continue to engage in efforts to accurately report on the sufficiency of the peer reviewer population as well as anticipated AICPA and CalCPA recruitment activities for presentation to the CBA at a future date.

## XI. Observations

Based on PROC members' 2021 observations of the various peer review bodies' meetings and other oversight activities cited in this report, the PROC offers the following findings and recommendation to the CBA.

### AICPA

The PROC concluded that the AICPA Peer Review Board's Oversight Task Force reviews of compliance with the AICPA Peer Review Board program were met and that the AICPA National Peer Review Committee procedures performed in administering the program complied with AICPA peer review standards in all material respects.

### CalCPA

Through participation in RAB meetings and the Administrative Site Visit, the PROC found CalCPA gave ample consideration to the quality of the profession, and exhibited a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and the peer reviewers through their handling of a variety of issues.

### NASBA Peer Review Compliance Committee

The NASBA Peer Review Compliance Committee did not hold any public meetings in 2021.

## XII. Conclusion

Based on its oversight activities, review of written communication including websites, and observation of public meetings, the PROC concluded that the AICPA Peer Review Program, and its administering entity, CalCPA, met expectations in accordance with the peer review program standards adopted by the CBA.

### Recommendation

The PROC recommends that the committee engage in activities to gather additional information from the AICPA and the CalCPA regarding the sufficiency of the peer reviewer population and anticipated recruitment activities for presentation to the CBA at a future date.